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MANAGEMENT CAPABILITIES ON PERFORMANCE OF MICROFINANCE BANKS IN KENYA

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Abstract

Financial institution's role in economic development and sustainability ought to be supported so as to enhance performance. Theoretical arguments such as resource-based view allude that organization performance is contingent to resources that may either be tangible or intangible. Hence, the current study evaluated the effect of management capabilities on performance of micro finance banks in Kenya. The study was based on dynamic capabilities theory. Descriptive research design was applied and primary data sourced through self- administered questionnaires. Descriptive statistics and simple regression analysis analyzed the data. It was documented that there was a positive and significant effect of management capabilities and firm performance of micro finance banks in Kenya.

Keywords: Management capabilities, Firm performance, Dynamic capability theory, Micro finance bank, Guarantors

INTRODUCTION

Micro finance institutions are meant to provide banking services to those who are in need of borrowing but they may have challenges in accessing collateral security. According to Ngahu and Bula (2015) micro finance bridge financial inclusion and deepening through of banking services to low-income earners, micro enterprises and unbanked individuals who may be perceived as high-risk borrowers due to lack of credit history. Further, microfinance bank lending is coordinated through groups and group members' acts as guarantors to other members.

Profit and non-profit making organizations are continuously seeking methods, procedures, goods and services that would aid in achieving their objectives. According to resources-based theory, corporations have adopted those resources hard to imitate and substitute and developed measure for achieving competitive advantage. One of the dominant approaches is exploration of organization capabilities (Hosseini, 2016). According to Peng et al., (2019) organization capabilities is the abilities of an organization to develop, exploit and allocate resources to achieve competitive advantages. These capabilities can be categorized into absorptive capabilities that involves collection of external knowledge to develop commercial interests. For an organization to fully benefit from external knowledge, it should be capable of acquiring and disseminating required knowledge throughout its operational process.

According to Nene and Pillay (2019) management is perceived to the organization pillar for creation and capitalization of resources allocation in working environment. This is achieved through knowledge and skills collection and allocation to different sector. Coasta et al., (2019) argued that there is significant effect of managerial capabilities on organization performance. Creation of organization capability is dependent on management capacity to create vision, formulate strategies and create communication platform for ease of examination of alternative solutions to problems. Ahmed (2017) argued that whenever organization and individual capabilities are pooled together then there are some competitive advantage and value addition to be derived. This is possible since team players will strengthen and synergize value contribution in line with organization objectives.

Before emergence of micro finance banks low-income earners relied on informal sources of credit. These loans were not only expensive but also interest rates charged were high. Though, these sources were common in rural and urban areas, micro finance may have penetrated some segment of their market share due to coordinated and availability of cheaper finance. According to Ngahu and Bulla (2015) micro finance banks are credited for reducing the unbanked population by at least 35%, though there is 38% of unbanked Kenyan. Hence the need to evaluate organization capabilities of respective banks to optimize on performance.

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Currently, in Kenya there are 13 micro finance institutions that are spread across the country through branch networks.

Statement of the Problem

There is need for all business enterprises to pursue measures aimed at enhancing their performance and optimization of shareholders wealth. Further, organization returns should be in an upward trajectory. Consequently, alternative strategic approaches have been adopted to respond to volatile and sporadic business environment. Micro finance banks operating environment in Kenya is not exempt from commercial and digital lending platforms competition. Although, organization capabilities may provide competitive advantage there is stiff competition from commercial banks, digital lenders and Savings and Cooperative societies. Hence, the need to be innovative to respond to customer service delivery and align with demand.

Although, management capabilities have an influence on organization performance in line with past studies. There is no consensus on empirical and theoretical evidence. For instance, Ahmed (2017) documented positive and significant effect of management capabilities on organization development in Pakistan. Kenya and Pakistan have different business operating environments hence the study findings may not be generalized. Oya, Hakan and Beyza (2010) documented that organization capabilities and employees' participation have significant impact on firm performance. Though, classical modelling was adopted, diagnostic tests were not carried hence there were high likelihood of drawing biased conclusions.

Hoseni (2016) documented positive and significant effect of marketing capabilities on Sopa company performance. The study drew respondents from single company and in a different sector from micro finance banks hence its risk exposure is different. Luminta (2016) documented significant effect of marketing capabilities on firm performance in Iran. These findings may not be generalized in Kenya due to political, geographical and economic differences. Rehman and Saeed (2011) reported significant impact of dynamic capabilities on firm performance in paper industry in Pakistan. Micro finance banks and paper manufacturers are exposed to different industry risks hence their approach to dynamic capabilities may be different and findings from each sector may not be a replica. Though, micro finance and manufacturing companies are based in Kenya. There were chances of drawing biased conclusions due to failure to document findings on classical regression assumptions. An examination of these past studies indicated that they have limited their investigation to a single attribute of organization capability. These past studies have conceptual, contextual and methodological gaps. Consequently, the current study seeks to examine management capabilities on performance of micro finance banks in Kenya.

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LITERATURE REVIEW

Dynamic Capabilities Theory

Dynamic capabilities theory was proposed by Wernerfelt (1984). It was proposed as modification of resources-based view. The theory argued that firm performance of an organization is dependent on a combination of strategic positioning and resources allocation (Barney, 1991; Peteraf, 1993). Proponents of this theory argued that dynamic capabilities of an organization have capacity of creating competitive advantage of an organization. According to Amit and Schoemaker (1993) the theory differs from resources-based view because in addition to resources allocation it's concerned on competitive advantages through resources renewal.

The theory is relevant for the study since there is need to develop management capabilities criterion that would be used in achievement of organization goals. Microfinance institutions should develop measures of governance structure, organization culture, employee potential and flexible design that would provide viable opportunities and exploit them to their benefits.

Empirical Literature Review

Ahmed (2017) investigated the influence of development on management capabilities on organization performance in Pakistan. Value chain research design was adopted and primary data gathered through administration of questionnaires. Descriptive and inferential statistics analyzed the data. Study findings indicated that there was positive and significant relationship between development and management capabilities. Further, there was a positive and significant relationship between management capabilities and organization performance. It was concluded that there is need to seek measures aimed at organization development so as to enhance its organization capability.

Oya, Hakan and Beyza (2010) studied the effect of core employees and organization capabilities on firm performance. Cross sectional research design was adapted and primary data was gathered through issue of questionnaires. Descriptive statistics, correlation and regression analysis analyzed the data. Study findings indicated that there was a positive and significant relationship between organization capabilities and firm performance. Core employees had significant effect on firm performance.

Rehman, Mohamed and Ayoup (2019) investigated mediating effect of organization capabilities on firm performance and its determinants in Pakistan. Cross sectional research design was adopted and primary data collected through questionnaires administration. Data was analyzed using descriptive statistics and structural equation modelling. Study findings indicated that there was significant relationship between cybernetic, rewards and compensation, and administrative controls ion organization performance. Secondly, there was a positive and significant association between cultural, cybernetic, rewards and compensation, planning and administrative controls and organization capabilities. Further, there was positive and significant relationship between organization capabilities and organization performance.

Costa, Camargo, Toaldo and Didonet (2019) investigated the effect of management on company capabilities in Brazilian manufacturing companies. Quantitative research design was adopted and primary data gathered through questionnaires administration among 343 marketing managers. Data was analyzed through use of descriptive statistics and structural equation modelling. Study findings indicated that managers' characteristics had moderating effect on the relationship between knowledge transformation and marketing capabilities. It was recommended that there is need to value more experienced managers while transforming knowledge and allocating it to strategies.

Nene and Pillay (2019) investigated the impact of organization structure on organization performance. Cross sectional research design was adopted and primary data collected using questionnaires. Descriptive and inferential statistics analyzed the data. Study findings indicated that there was positive and significant relationship between organization structure and organization performance. It was recommended that there is need for an organization to strive for effectiveness in its operations so as to promote employee motivation.

Indinya, Obura and Mise (2018) examined the effect of organization culture on performance of public universities in Kenya. Cross sectional research design was applied and primary data collected among 215 management staff from 11 public universities. Descriptive statistics, correlation and regression analysis analyzed the data. Study findings indicated that there was positive and significant relationship between organization culture and organization performance. Further, there was positive and significant relationship between organization values, organization artifacts, individual beliefs and organization performance. It was recommended that universities should develop measures aimed at promoting quality management in their respective institutions.

Changezi and Saeed (2013) studied the impact of corporate governance framework on organization performance in Pakistan major banks. Specifically, the study examined the impact of directors remuneration, communication strategies, code of conduct, governance mechanism and organization performance. Cross sectional research design was adopted and primary data gathered through issue of questionnaires. Descriptive statistics and inferential statistics analyzed the data. Study findings indicated that there was significant association between organization culture and organization performance. It was recommended that there is need for development of strong and effective corporate governance mechanisms that would enhance compliance with corporate governance guidelines.

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Pelayo, Calderon and Mauricio (2012) investigated the impact of corporate governance on human resources practices and financial performance of firms in Columbia. Cross sectional research design was adopted and primary data collected through issue of questionnaires. Data was analyzed through descriptive statistics and regression analysis. Study findings indicated that there is a significant association between corporate governance practices and financial performance. The study findings may not be generalized in Kenyan context since there are differences in economic and geo-political context between Kenya and Columbia.

Bordbar and Kamali (2017) investigated the impact of corporate governance on employee voice. Specifically, the study examined the impact of corporate governance on employee meaningful relations in aspects of discouragement, organization indifference, organization objections, employee empowerment and employee team work. Cross sectional research was adopted and primary data gathered among university staff. Study findings indicated that corporate governance has a significant impact on employee's voice.

Conceptual Framework

Conceptual framework is diagrammatic presentation of the relationship between variables under examination. In this study its hypothesed that management capabilities have effect on performance of microfinance finance banks in Kenya. Management capabilities was operationalized as governance structure, organization culture, employee potential and flexible design. Performance was operationalized as product differentiation, customer satisfaction, customer loyalty and operational effectiveness.

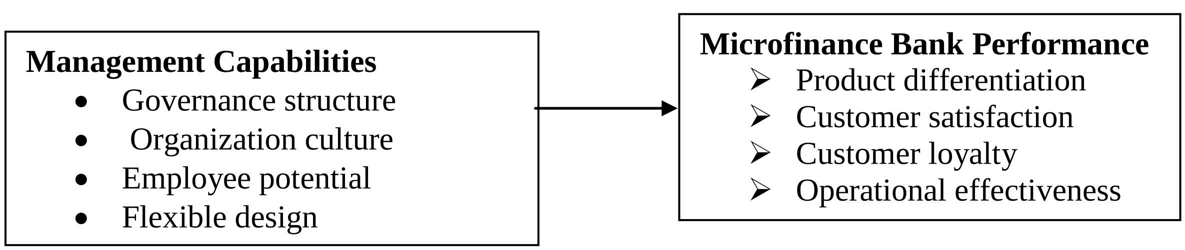

Figure 1: Conceptual Framework

METHODOLOGY

Research Design

Research design is procedural framework that should be followed while undertaking research study (Saunders, Lewis & Thornhill, 2014). According to Oso and Onen (2009) a research design should guide measures that should be adopted in case there are some deviations from desired goal. The current study adopted descriptive research design. According to Sekaran and Bougie (2016) descriptive research design is appropriate whenever the researcher seeks to responds to questions on why, how, what and when. The descriptive research design is appropriate for the study since the researcher seeks to examine management capabilities on firm performance among micro finance banks in Kenya.

Target Population

According to Kothari (2011) target population is the total count of all individuals under consideration in a study. In this study target population comprised of development managers, strategic managers, operations and human resources managers of micro finance banks in Kenya. The target population had 65 respondents.

Sampling Techniques and Sample Size

Sampling technique is the procedure that guides how respondents in a study will be selected (Sekaran & Bougie, 2013). Sampling technique is said to be probabilistic if there are equal chances of selecting all respondents under consideration and non-probabilistic if there is a subjective criterion to be complied with while selecting respondents (Oso & Onen, 2009).

Currently, there are only 13 licensed micro finance institutions in Kenya, census approach was used to select them and four respondents were drawn from each firm giving a sample of 52 respondents. The respondents of the study were development managers, strategic managers, operations and human resources managers of micro finance banks in Kenya. Their selection was anchored on the argument that they understand operational guidelines of micro finance institutions hence they can fully understand management capabilities on performance of micro finance banks.

Research Instrument

Research instrument is a tool developed to aid in gathering of required study data (Sekaran & Bougie, 2013). In this study primary data was gathered through application of questionnaires. According to Kombo and Tromp (2006) social scientists have preference for questionnaires since they can be easily administered over large group of respondents. Further, questionnaires can be closed or open-ended questions. Further on closed ended questionnaires can be easily analyzed using computer software unlike open ended data that may require thematic and content analysis.

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Data Analysis and Presentation

After data collection, questionnaires were sorted and those completely filled out were coded and entered into computer packages; Statistical Packages for Social Scientists (SPSS, 23). Qualitative data was analysed using content and thematic analysis. Quantitative data was analysed using descriptive and inferential statistics. Descriptive statistics to be adopted in the study included mean and standard deviation. Simple linear regression analysis examined the nature of management capabilities on performance of micro finance banks in Kenya. Simple linear regression model is as noted.

$Y = \beta_0 + \beta_1 X_1 + \mu$

Where Y = Micro finance bank performance

X_1 = Management capabilities,

β_0 = Y intercept, value of micro finance bank performance when all X's are zero.

β_1 slope coefficient per unit increase in each X.

FINDINGS AND DISCUSSIONS

Descriptive statistics adopted in the study were measures of dispersion and central tendency. Findings in Table 1 indicates that majority agreed that in their micro finance banks there was an efficient flow of communication that aided in performance (mean = 4.4). Secondly, majority (mean =4.5) strongly agreed that there are clear channels of communication. Thirdly, majority mean = 4.3 agreed that they have clear policies on how management transitions are executed. Majority mean =4.6 either strongly agreed that they have clear means of solving conflicts in their organization or they have clear policies for reward and recognition. Moreover, majority strongly agreed that they have a strategy for correction employees that enhances retention (mean = 4.7).

Table 1 Descriptive Statistics on Management Capabilities

	Mean	Std. Deviation	CV
Efficient flow of communication aids in performance	4.4	0.6	7.9
There are clear channels of communication	4.5	0.6	7.2
There are policies on how management transition is executed	4.3	0.7	6.3
There are means of solving conflicts in the organization	4.6	0.5	8.5
There are policies on rewards and recognition	4.6	0.7	6.5
There is strategy for correcting employees that enhances retention	4.7	0.6	8.0

Descriptive analysis on firm performance in Table 2 indicates that majority strongly agreed that they heterogeneous products and services (mean = 4.5). Secondly majority agreed

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that they have mechanisms for enhancing customers satisfaction and their operational procedures optimized their operational costs with mean of 3.7 and 3.6 respectively. In contrast there was neither agreement nor disagreement on whether customer retention is manifested through growth in return visits mean = 3.2.

Table 2 Descriptive Statistics on Firm Performance

	Mean	Std. Deviation	CV
There are heterogeneous products and services	4.5	0.8	6.0
There are mechanisms for enhancing customers satisfaction	3.7	1.0	3.8
Customer retention is manifested through growth in return visits	3.2	1.0	3.3
Operational procedures optimize cost	3.6	1.2	3.0

Simple linear regression analysis was applied to examine management capabilities on performance of micro finance banks. Model summary in Table 3 has an R squared on 0.548, that indicates that 54.8% of changes in performance of micro finance banks can be accounted for by management capabilities while the remaining portion is associated with other aspects.

Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.741a	0.548	0.534	0.825463
a Predictors: (Constant), Management capabilities				

Analysis of variance in Table 4 has an F statistic of 37.65 with a p value of 0.000. This indicates that there was a linear relationship between management capabilities and firm performance of micro finance banks in Kenya.

Table 4 Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.654	1	25.654	37.65	.000b
	Residual	21.123	31	0.681		
	Total	46.777	32			
a Dependent Variable: Performance						
b Predictors: (Constant), Management capabilities						

Regression coefficients in Table 5 indicates that there was a positive and significant relationship of management capabilities on firm performance of micro finance banks in Kenya ($\beta = 0.812$, p value < 0.05). This indicates that a unit increase in management capabilities increases firm performance of micro finance banks by 0.812 units. The findings confirmed Ahmed (2017) who found that development of management capabilities positively and significantly affected organization performance in Pakistan. The result concurs with Oya et al., (2010) who argued organization performance is positively dependent on organization capabilities and core employees. Further, the results confirmed Costa et al., (2019) who argued that management capabilities positively affected performance of Brazilian manufacturing companies. Nene and Pillay (2019) documented positive significant effect of organization structure on performance of public universities in Kenya.

Table 5 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	-0.149	0.151		-0.986	0.332
	Management capabilities	0.812	0.132	0.741	6.136	0.000
a Dependent Variable: Performance						

CONCLUSION AND RECOMMENDATIONS

Based on the study findings it can be concluded that management capabilities have positive and significant relationship on firm performance of micro finance banks in Kenya. Therefore, positive change in management capabilities enhances performance of micro finance banks. Consequently, it can be recommended that there ought to be continuous evaluation of corporate governance, organization structure, employee potential and flexibility of work design so as to optimize on performance of micro finance banks in Kenya. The study also recommends the use of more experienced managers while transforming knowledge and allocating resources. The study too recommends micro finance banks to strive for effectiveness in their operations and service delivery to customers. There is also need to promote employee motivation who will in turn foster long lasting relationships with customers. The study recommends continuous evaluation of the set out performance indicators in order to optimize on micro finance banks top line.

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